VZCZCXYZ0000
RR RUEHWEB

DE RUEHBO #4243/01 3302235
ZNR UUUUU ZZH
R 252235Z NOV 08
FM AMEMBASSY BOGOTA
TO RUEHC/SECSTATE WASHDC 5749
INFO RUEHBR/AMEMBASSY BRASILIA 8526
RUEHPE/AMEMBASSY LIMA 6775
RUEHCV/AMEMBASSY CARACAS 1361
RUEHZP/AMEMBASSY PANAMA 2715
RUEHQT/AMEMBASSY QUITO 7469
RUEHLP/AMEMBASSY LA PAZ NOV OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS BOGOTA 004243

SIPDIS
SENSITIVE

S/P FOR WMCILHENNY; EEB/IFD PASS TO OPIC PBALLINGER; TDA NYOUNGE; EXIM XCREQUE-BROMBERG

E.O. 12958: N/A
TAGS: EINV ECON ELAN EWWT EFIN PGOV CO
SUBJECT: GOC OUTLINES AMBITIOUS INFRASTRUCTURE PLAN, BUT WHO WILL PAY?

¶1. (SBU) SUMMARY: Infrastructure has long constrained Colombia's economic competitiveness, geographical cohesion and presence of the state. However, as security continues to improve and Colombia aims to position itself to compete in the global marketplace, the GOC is launching an ambitious plan to expand and modernize its transportation, infrastructure. Primary focus lies in major road projects to link Colombia's economic centers to its coasts, followed by integrated efforts to improve mid-size ports and airports and extend Colombia's limited rail network. The GOC intends to rely on private investment and concessions for the majority of the estimated USD 39 billion in required infrastructure investment over the next six years. The role of a recently announced USD 500 million public investment fund that will tap Colombia's pension system and multilateral bank resources remains to be determined. Colombian business contacts regard lack of infrastructure development as President Uribe's greatest failing to date, and wonder whether this latest GOC push has simply come too late given the current scarcity and high cost of major project financing. END SUMMARY.

Highways Top Priority

¶2. (SBU) According to National Planning (DNP) Director Carolina Renteria and Transportation Minister Andres Gallego, the GOC's top infrastructure priorities are three superhighway projects that will link Colombia's central industrial region to its Pacific and Caribbean coasts as well as interconnect the country's booming northern coast population centers. The largest of the three projects, referred to as the "Route of the Sun" will connect Bogota to Santa Marta via 680 miles of divided highway at an estimated cost of USD 3 billion. The Ministry of Transport, which is dividing the project into three segments, will begin the bid process on December 9 and forecasts completion of the project, reportedly the second largest road project currently planned in Latin America, by 2015.

¶3. (SBU) The "New Independence Road" concession will link Colombia's industrial capital, Medellin, to the growing port of Turbo on the Caribbean Coast near the Panamanian Isthmus. The 340-mile road rehabilitation and new construction will require an estimated USD 780 million in investment and will open for bidding in mid-2009. The third super-highway project, called the "Highway of the Americas", plans to interconnect Colombia's north coast from the Guajira peninsula to the Panamanian border via more than 1,500 miles of primary and secondary roads. While an estimate of

investment is still under development by the DNP, Director Renteria told Econoff the final cost would likely exceed that of the "Route of the Sun" project.

Airports, Ports, Rail, & Mass Transit Also Planned
--- -----

¶4. (U) Beyond highways, the GOC has identified over two dozen priority infrastructure projects for airports, ports, rail lines, and mass transit. In the air sector, the GOC plans to follow the 2008 issuance of 20-year operating and investment concessions at six airports with an additional six concessions (Santa Marta, Riohacha, Valledupar, Barrancabermeja, Bucaramanga and Cucuta) in 2009. The GOC estimates USD 104 million in total investment for the six new concessions. In the ports sector, the GOC extended the concessions for three of Colombia's largest ports (Buenaventura, Santa Marta, and Barranquilla) in 2008 contingent upon respective investments totaling USD 750 million. In 2009, the GOC expects to finalize new development projects at the ports of Aguadulce (north of Buenaventura--USD 103 million) and Contecar (near Cartagena--USD 297 million) as well as issue solicitations for greenfield investments in the ports of Bahia Malaga and Tribuga on the Pacific Coast and Turbo on the Caribbean Coast.

¶5. (U) Although Colombia has traditionally placed low priority on developing its rail network, the GOC has two railroad renovation projects presently under concession (Santa Marta-Chiriguana and Buenaventura-La Felisa), and

plans to begin the bidding processes for three more concessions in early 2009. The largest of the three proposed concessions will link the northern Santa Marta-Chiriguana line to central Colombia and the outskirts of Bogota via 650 miles of new and rehabilitated rails. The 30-year concession will require an estimated USD 437 million of investment. The GOC is also preparing studies to offer the construction concession for a completely new 345-mile line to link coal fields in Boyaca and Cundinamarca to existing lines running north to Colombia's Caribbean coast.

¶6. (U) The GOC also plans to significantly increase investment in urban mass transit infrastructure, following the success of Bogota's TransMilenio Bus Rapid Transit System (BRTS). The national and local governments will cover up to 70 percent of the infrastructure investment and private concessionaires will provide the balance of investment and operate the systems in 17 major metropolitan areas. The first five new BRTS (Cali, Cartagena, Barranquilla, Bucaramanga, and Medellin) are scheduled for operation by ¶2010. The GOC has also prepared plans for a 65-mile commuter railway network for Bogota and anticipates soliciting bids in mid-2009.

In Search of Investors

¶7. (SBU) The GOC expects to fund these infrastructure projects primarily through the granting of long-term toll and operating concessions to private investors and construction firms. On the margins of Colombia's Infrastructure Congress in Cartagena November 20, President Uribe met with more than 30 such international investors to encourage bidding on the GOC's priority projects. While several of the assembled investors, including companies from Spain, Mexico, Portugal, Brazil, and the United States, expressed particular interest in the highway projects, most underscored the current international credit crunch greatly complicated the financial viability of such investments. The investors urged the GOC to make available domestic sources of financing, such as public pension funds, as part of the concessions.

¶8. (SBU) In response, Finance Minister Oscar Zuluaga agreed to examine such mechanisms, while President Uribe suggested the GOC could provide certain minimum toll receipt guarantees to enhance concession terms. GOC officials also highlighted

plans to utilize new public-private investment vehicles to augment private direct investment.

New Investment Fund Role Still in Development

¶9. (SBU) In October, the GOC signed a letter of intent with the Inter-American Development Bank (IDB) and Andean Development Fund (CAF) to establish a public-private investment fund focused on infrastructure. The fund will be capitalized with initial contributions from the IDB and CAF as well as GOC fiscal appropriations and investments by Colombian public pension funds totaling approximately USD 500 million. In order to maximize transparency for potential private investors, the GOC plans to contract a private administrator with independent authority to select infrastructure projects in Colombia to support. Projects will pay investors back through a combination of tolls and usage fees.

¶10. (SBU) While the GOC is touting the fund as an important new mechanism for infrastructure development in Colombia (and expressed hope to Econoffs that U.S. investors and development agencies such as the Overseas Private Investment Corporation could support the initiative), current participants and potential investors note that the initial fund size is inadequate to support even one major project. Separately, the new World Bank Resident Representative told EconCouns that the World Bank would likely not contribute to the fund due to concerns about moving such public investment activities off GOC books. At present, fund coordinator and Director of Public Credit Viviana Lara acknowledged to Econoff November 20 that it would take several more months to fully define the fund's role in the GOC's overall

infrastructure plan.

Comment: Too Late, and Now Too Expensive?

¶11. (SBU) After years of systemic underinvestment in infrastructure exacerbated by access limitations from the civil conflict, Colombia is now focusing on the importance of infrastructure for economic competitiveness, national integration, and provision of government services. The GOC's plans are ambitious given the investment requirements and its fiscal pressures, but reflect both the priority the Uribe Administration is now placing on infrastructure development and its commitment to finding private investment solutions to Colombia's development needs. The question that many in Colombia are asking is why it has taken so long. Our private sector contacts -- who usually have little negative to say about the President's performance -- generally cite lack of infrastructure development as his greatest failing to date. Transportation Minister Gallego is widely regarded as among the most ineffective members of Uribe's Cabinet, and is routinely blamed for not having moved these projects sooner when international financing was plentiful and less costly.
BROWNFIELD